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ABSTRACT

Unemployment compensation in the United States is provided through a federal-state system of unemployment insurance (UI). UI provides temporary partial wage replacement to active job seekers who are involuntarily out of work. For older workers, UI is an important source of income security and a potential influence on work incentives. For example, the transition from full employment to retirement may include other non-career employment and part-time jobs before full retirement. Many issues in UI policy, such as coverage, eligibility, adequacy of benefits, duration of benefits, work incentives, benefit financing, and interaction with other programs, are of concern to older workers. A survey of policy issues suggests that changes, such as initial eligibility, continuing eligibility, wage replacement, and partial benefits, should all be examined to evaluate effects on the likely employment patterns of older workers. Particular attention should be given to UI features affecting the choice of self-employment, part-time work, seasonal work, and agricultural jobs. The financing consequences of possible UI program changes should also be estimated, as should the macroeconomic impact of broadening reciprocity. Worsening labor shortage conditions in the United States mean that efforts to retain older workers in the labor force will intensify. The current and potential influence of UI on the income security and labor force participation of older workers should be well understood. (Contains 60 references and 13 tables.) (KC)

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Unemployment Compensation and Older Workers

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Unemployment Compensation and Older Workers

Abstract

Unemployment compensation in the United States is provided through a federal-state system of unemployment insurance (UI). UI provides temporary partial wage replacement to active job seekers who are involuntarily out of work. For older workers, UI is an important source of income security and a potential influence on work incentives.

For many, the transition from full-time work in a career job to retirement is voluntary and orderly. For others, job displacement greatly disrupts plans. The transition often involves many intermediate steps. The chain of transitions may include full- or part-time work on another job which most often is not in the same industry and occupation (a bridge job). There may also be movement between bridge jobs, perhaps back from a bridge job to a career job, and finally a gradual movement into full retirement while out of the labor force.

Many issues at the forefront of current UI policy debate are also issues of prime importance to those in the second half of their working life. Issues occur in all the standard areas of UI policy: coverage, eligibility, benefit adequacy, duration of benefits, work incentives, benefit financing, and interaction with other programs. This paper provides a brief background sketch of the labor market situation of older workers to examine issues of prime concern to older workers in these areas of UI policy.

Our survey of policy issues suggests that changes in UI rules concerning, initial eligibility, continuing eligibility, wage replacement, and partial benefits should all be examined to evaluate effects on the likely employment patterns of older workers. Particular attention should be given to UI features affecting the choice of self-employment, part-time work, seasonal work, and agricultural jobs.

The financing consequences of possible UI program changes should also be estimated, as should the macroeconomic impact of broadening reciprocity. UI program features which would promote flexible and extended labor force participation by older workers should also enrich the employment choice environment for other workers. Therefore, it would be useful to examine the impact of such program changes on UI as a built-in stabilizer of aggregate expenditures.

While younger workers are usually committed to long-term participation in the labor force, older citizens are often more flexible in choosing to use their time. Worsening labor shortage conditions in the United States mean that efforts to retain older workers in the labor force will intensify. The current and potential influence of UI on the income security and labor force participation of older workers should be well understood.

Unemployment Compensation and Older Workers

1. Introduction

Unemployment compensation in the United States is provided through a federal-state system of unemployment insurance (UI). UI provides temporary partial wage replacement to active job seekers who are involuntarily out of work. Eligibility for UI benefits and compensation levels depend on recent earnings experience, the conditions of job separation, and continuing job search activity. The amount of compensation paid for any week of joblessness can be affected by current income from other sources, including part-time work and pensions.

During the second half of the working life, decisions about the process and timing of movement toward full retirement move to the forefront. For many, the sequence is voluntary and orderly; for others, job displacement greatly disrupts plans. While UI is critical for income security of the latter group, it may also play an important role for former.

Most economic analysis of retirement patterns has focused on the financial incentives created by public and private pension

systems.¹ Quinn, Burkhauser, and Myers (1990, p. 5) point out that while an abrupt and complete transition from full-time work is still the most common avenue to retirement, a variety of others paths are often taken. A crucial concept in their research is that of the *career job*. The career job is the one on which a worker spends the bulk of their working life, usually working full time. If transition from the career job to retirement is not immediate, it may involve an hours reduction to part-time work on the career job. Alternatively, there may be an exit from the career job to full- or part-time work on another job, which most often is not in the same industry and occupation.

Bridge employment is what Quinn (1999) calls work between the career job and complete retirement. He estimates that a minimum of 49 percent of women and 34 percent of men engage in bridge employment, and that the great majority of bridge employment involves fewer hours per week and less compensation per hour than the career job. The probability of involuntary exit from the career job later in life is high and has risen in recent years (Farber, 1997). Furthermore, the chance of gaining reemployment after displacement from a career job diminishes with age (Chan and Stevens, 1999).

¹Burtless (1999) summarizes retirement trends and economic research focusing on retirement incentives.

Job and income security after age 45 and strategies for transition to retirement can be greatly influenced by the institutional arrangements of UI. Many issues at the forefront of current UI policy debate are also issues of prime importance to those in the second half of their working life. Issues occur in all the standard areas of UI policy: coverage, eligibility, benefit adequacy, duration of benefits, work incentives, benefit financing, and interaction with other programs. We proceed to examine issues of prime concern to older workers in these areas of UI policy after providing a brief background sketch of the labor market situation of older workers.

2. Background

Whether they can admit it to themselves or not, the second half of their working life starts by age 45 for the great majority of Americans. In this paper we examine the labor market and UI beneficiary experience of those aged 45 and over in comparison to those who are younger. The investigation is summary in nature and meant to suggest topic areas where focused research would be valuable. We rely on published summary statistics reported in the *Handbook of U.S. Labor Statistics, Third Edition, 1999*, the Social Security Administration's publication *Income of the Population 55 or Older--1996*, on samples drawn for evaluation and modeling in the states of Michigan and Washington, and on unpublished data

provided by the U.S. Department of Labor based on their Benefit Accuracy Measurement (BAM) system of random audits.²

The percentages of older workers among the labor force, the total unemployed, and the insured unemployed are reported in Table 1 for the United States in 1998. The figures are based on monthly averages for the year and indicate that those aged 45 years and over made up one-third of the labor force, encompassed only one-fifth of those experiencing unemployment, but included one-third of all UI beneficiaries. Table 2 provides an age distribution of insured unemployment by state for 1998. It is interesting to note that the retirement states Arizona and Florida reasonably mimic the national shares of UI receipt by age, while the District of Columbia pays a disproportionately large share to older workers, and payments are weighted heavily toward younger workers in Maryland, Oregon, and Puerto Rico. The national average numbers suggest that older workers shoulder a proportionately small share of the unemployment burden while enjoying a higher-than-average chance of receiving UI compensation while jobless and seeking work.

These summary statistics on UI reciprocity for older workers are at odds with trends experienced by the work force as a whole

²Methods for collection and use of the Benefits Accuracy Measurement (BAM) data is given in U.S. Department of Labor (1996). The BAM samples are drawn in the fifty states, Puerto Rico and the District of Columbia. Procedures are designed to yield samples representative of week of benefits paid from each state's universe of paid UI claims.

since the state UI reforms following the 1975 and 1982 recessions. Vroman (1991) summarized research into causes of the decline in the ratio of the insured to total unemployment rate (IUR/TUR). Burtless (1983) identified a raft of factors including tightened eligibility requirements, a rising level of UI exhaustions, and the introduction of income taxes on UI benefits. This last factor operates because those from higher-income households are less likely to apply for benefits. Blank and Card (1991) found the decline partly explained by tightened eligibility, but largely due to a decline in UI benefit application rates. They estimated the overall take-up rate among those eligible for UI benefits to be only about 65 percent. Corson and Nicholson (1988) identified declines in unionism and manufacturing employment as causes of a declining IUR/TUR ratio. Concerning older workers, Corson and Nicholson (1988) suggested that changed treatment of the pension benefit offset required by the federal unemployment compensation amendments of 1976 may explain part of the declining IUR/TUR. Details about the treatment of pensions in UI are provided below.

One factor which could partly explain higher reciprocity rates among older unemployed workers is that a large share of older UI claimants may be dislocated workers. In employment policy and research definitions, dislocated workers are those with long job tenure

who become permanently separated from their employer.³ Being dislocated increases workers' chances of eligibility for UI benefits. Unfortunately, such circumstances may increase the probability of UI benefit exhaustion. Relying on data from Hipple (1999a), Table 3 shows that job dislocation increases with age; Farber (1997) found similar evidence.⁴ Table 3 also shows that employment rates decline precipitously after age 54, and that the prospect of returning to full-time reemployment after displacement is 30 to 70 percent lower for older workers. Less than one-tenth of displaced workers under 55 years of age leave the labor force, but more than one-fourth of workers aged 55-64 and nearly half of those 65 and over exit. Chan and Stevens (1999) similarly find that involuntary job loss reduces reemployment chances more for older the job seekers, who often

³Policy definitions are given in the Economic Dislocation and Worker Adjustment Assistance (EDWAA) Act of 1988. These definitions largely carried over to the Workforce Investment Act (WIA) of 1998. An overview of research applications of this concept are given in Leigh (1990).

⁴Hipple's (1999a) data is from the Displaced Worker survey, which is conducted every 2 years by the Bureau of Labor Statistics to provide information on the number and characteristics of persons who have been displaced from their jobs over the past three years. Based on a supplement to the February 1998 Current Population Survey, the latest study is for the period 1995-1996. It reveals that between 1995 and 1996, 2.2 million workers aged 20 years or older lost jobs they had held for three or more years due to plant or company closing or moving; positions or shifts abolished; or employer not having enough work for them to do. The data show that there has been a cyclical decline in the displacement rate of long-term workers from 3.9 percent in 1991-1992, to 3.3 percent in 1993-1994, to 2.9 percent in 1995-1996.

make early transitions to being permanently out of the labor force—fully retired.

Unpublished data from the displaced worker survey (Hipple 1999b) reveal that while only 51 percent of all displaced workers received UI, the percentage rises as durations of unemployment increase. Three-quarters of displaced workers unemployed five or more weeks received UI, and, among those unemployed for 15 or more weeks, the proportion rises to four-fifths. Thus, it appears that some displaced workers never file for UI benefits, as they search for jobs and become reemployed quickly: only one-fifth of displaced workers unemployed for less than five weeks collect benefits. These data also indicate that while the rate of reciprocity of UI is stable among age groups around the mean of 51 percent, exhaustion rates rise sharply with age.

The path of employment and income transition from a career job to retirement income can be rocky. As shown in Table 3, displaced workers become reemployed at rapidly declining rates as they age. Older displaced workers who gain reemployment also suffer larger earnings losses. Among displaced workers aged 55 to 64, the earnings loss was 20 percent or more for 38.2 percent of those who got reemployed, while an earnings reduction of that magnitude was experienced by less than a quarter of younger displaced workers.

For those who do ultimately receive UI benefits, the Benefits Accuracy Measurement (BAM) audit data provides a picture of their

characteristics.⁵ Such a summary is provided in Table 4. Men tend to draw a larger share of UI benefits, up until age 65. Older beneficiaries tend to have lower levels of formal educational attainment. Beneficiaries over age 54 are less likely to be Black or Hispanic and more likely to be White or Asian/Pacific islander. The age distribution of the prior occupation is different for the oldest workers. After age 64 larger shares of beneficiaries are from sales and services occupations, and smaller shares are from structural occupations. These results are consistent with a movement into bridge occupations prior to full retirement.

3. Coverage

“The coverage provisions of state UI laws determine the employers who are liable for contributions and the workers who accrue rights under the laws.”⁶ Original federal requirements limited coverage to employers of 8 or more workers in each of 20 or more weeks in a year.⁷ UI coverage today is nearly universal, with only

⁵The BAM data are used to assess the accuracy of UI benefit payments by selecting key weeks of benefit payments. Beneficiaries who have long durations of UI benefit receipt have a higher probability of being selected for the weekly BAM samples.

⁶U.S. Department of Labor(1999), page 1-1.

⁷Blaustein (1993), page 162.

four main exclusions remaining: agricultural workers, household workers, employees of religious organizations, and the self-employed.⁸

Exclusion of the self-employed is an issue of particular importance to older workers. Table 5 indicates that 6.8 percent of all non-agricultural workers participate in self-employment, but the share rises to 10.9 percent of those aged 55 to 64 and to 17.2 percent of those aged 65 and over. It is even more important among workers in agriculture, for whom a majority of those 45 years of age and over are self-employed.

Since the depression-era beginnings of the federal-state UI program in the United States, the self-employed have generally not been covered. The main reason is to avoid problems of *moral hazard*.⁹ With UI for self-employment, those who would pay premiums and be eligible for benefits would also manage the risk of unemployment and make decisions about work stoppage. In particular, there is an inability to determine whether individuals are

⁸Bassi and McMurrer (1997), pages 54-61.

⁹The problem of moral hazard is present when the insured can affect the chance of experiencing the unfavorable outcome insured against, without being observed by the insurer. In unemployment insurance, moral hazard is present if a worker can affect the chance of being unemployed while not being detected by the state unemployment agency. The state agency will disqualify UI beneficiaries when a job separation or continuing joblessness is determined to be avoidable.

involuntarily unemployed, measure the economic loss of income, and determine whether an individual is employed or unemployed for a given week. UI is social insurance and extending coverage to the self-employed compromises the insurance nature of the program.

California is the only state that has a limited form of UI coverage for the self-employed. The California scheme operates on a fully reimbursable basis. This method of coverage has been used widely in the UI program first for governmental agencies and since 1972 for private non-profit firms. In 1998, reimbursable benefits accounted for 5.7 percent of all payments in the federal-state system, with 42 percent of these reimbursables going to employees separated from non-profits.¹⁰ Reimbursement may not be a particularly effective approach to UI coverage, but it is a method of avoiding the moral hazard issue by not allowing manipulation of the system for one's own benefit (Bassi and McMurrer, 1997). Under the reimbursable approach, repayment is due in the calendar quarter following disbursement of benefits. Such a system would amount to short-term loans to self-employed for reintegration back to regular wage and salary employment. Feldstein and Altman (1998) suggested individual UI savings accounts which could be established

¹⁰U.S. Department of Labor (1998).

with pre-tax contributions and might be particularly appropriate for the self-employed.¹¹

While the UI system is not currently structured to provide temporary income replacement to the self-employed, in several states UI beneficiaries can start their own business instead of searching for wage and salary employment.¹² While they establish their self-employment activity they can receive self-employment assistance (SEA) payments in lieu of UI weekly benefits. To date, eleven states have enacted conforming state legislation.¹³

The SEA program, like similar programs in nearly 20 other OECD nations, has been very small.¹⁴ In 1996, no state had as many as 0.5 percent of its regular UI recipients getting SEA payments.

¹¹For older workers, an appealing feature of Feldstein and Altman's (1998) proposal is that borrowing from the government takes place when accounts are exhausted, and "negative account balances are forgiven at retirement age."

¹²A temporary UI self-employment program was established in 1993 as part of the North American Free Trade Act (NAFTA). Federal legislation in 1998 permanently gave states the option to provide self-employment assistance with UI trust fund money.

¹³The eleven states are California, Connecticut, Delaware, Maine, Maryland, Minnesota, New Jersey, New York, Oregon, Pennsylvania, and Rhode Island. Among these, Connecticut, Minnesota, and Rhode Island have not yet implemented their programs.

¹⁴Wandner (1992) provides an overview of the international experience. He also summarizes the two U.S. experiments which predated the NAFTA authorizing legislation.

SEA participants are generally successful at starting up their own business; about two-thirds do so. These participants differ dramatically from other UI claimants. They are older; less likely to be a minority (particularly Hispanic); more likely to be from professional, managerial and technical occupations; have higher educational attainment; and are more likely to be dislocated workers (Vroman, 1999).

When the U.S. Department of Labor began the SEA experiments in Massachusetts and Washington in the 1980s, the over representation of older workers was not expected. Participating states imagined that the program would be particularly valuable for minorities and women. It did not turn out that way either in the experiments or the early program operations.¹⁵ Rather, older permanently separated workers have found SEA to be a promising alternative, apparently because of their greater difficulty in finding wage and salary employment and because of skills acquired through years of employment.

¹⁵About the experiments see Benus, Wood, and Grover (1994); about the programs see Vroman (1999).

4. Eligibility—Initial and Continuing

As stated in the introduction to this paper, eligibility for UI benefits depends on recent earnings experience, the conditions of job separation, and continuing job search activity. Rules regarding recent earnings activity call for checking for sufficient prior labor force attachment in UI-covered work.¹⁶ Essentially these rules ensure that UI premiums have been paid before compensation is granted. Earnings are considered for a base period consisting of four calendar quarters, which are usually the first four of the previous five completed quarters for administrative practicality.¹⁷ Table 1 showed that workers aged 45 and over make up only one-fifth of the unemployed, but they total more than one-third of all the UI beneficiaries. This suggests that a high proportion of unemployed older workers had sufficient prior earnings to qualify for UI benefits.

¹⁶In many states there is also a requirement that a certain number of hours must have been worked in the reference period called the base year.

¹⁷Following a 1994 decision by the U.S. Court of Appeals in the Seventh Circuit case of *Pennington versus Didrickson*, many states have implemented alternate benefit year (ABY) rules which consider income and hours the four most recent calendar quarters if eligibility is not established using the standard rule. The Advisory Council on Unemployment Compensation (1996, p. 19) endorsed general adoption of ABY rules.

The conditions of job separation were set to minimize insurance problems of moral hazard by essentially ensuring that the separation was involuntary and primarily due to lack of work, not due to controllable factors such as a quit, a collective bargaining dispute, or discharge for misconduct. Joblessness is compensable in all states for voluntary separations for good cause which usually includes (1) sexual harassment, (2) illness, (3) leaving to accept other work, (4) joining the armed forces, and (5) compulsory retirement.¹⁸ The last of these is of interest to older workers. As Quinn (1999) points out, mandatory retirement was outlawed entirely in 1986. Workers dismissed for reason of age have been illegally discharged and are therefore entitled to UI benefits, with the separating employer liable for benefit charges.

The final requirements for jobless benefits are known as continuing eligibility conditions. These are set to ensure continuing labor force attachment. They are of two types: job search requirements and limits on refusing suitable work. The job search rules are known as "able, available, and actively seeking work" requirements. Administration of these rules is more art than science.¹⁹

¹⁸Nicholson (1997), page 103.

¹⁹Anderson (1997) examines state rules and practices in administering continuing UI eligibility.

Job search requirements are not imposed on beneficiaries who are still waiting to be recalled by the employer liable for benefit charges. One of the original aims of UI was to prevent dispersal of the experienced workers for an enterprise. Employers may temporarily furlough workers and promise the employment security agency that the workers will be recalled to their old jobs. Using the BAM data, Table 6 summarizes the recall status of UI beneficiaries by age, as well as the age distribution of various work search requirements. Workers aged 45 and over are more likely to be on recall status during their period of UI benefit receipt, and the proportion awaiting recall appears to increase with age. Direct data on work search requirements suggest that the rate of job attachment among UI beneficiaries increases with age, and, as a result, there is a slight downward trend with age in required work search.

The UI system was designed to operate for full-time, permanently attached members of the labor force. Both initial and continuing UI benefit eligibility issues are raised when part-time employment is considered. As seen in Table 7, relative to those aged 25 to 54, part-time work is popular among both younger and older workers. For those aged 55 and over, more than one-quarter of all workers were employed part-time in 1998. Furthermore, over 30 percent of unemployed job seekers aged 55 and over were seeking part-time employment.

We now consider two questions concerning part-time work and *initial* UI eligibility, and then two different questions about part-time work and *continuing* eligibility:

(a) *If a part-time job is lost and the job seeker is without work, are prior earnings and hours sufficient to qualify for benefits?*

The crux of this issue is the current use and measurement of monetary eligibility for UI using a measure of quarterly or annual wages. Such measures have traditionally been used by state UI programs to measure labor force attachment. The Advisory Council on Unemployment Compensation (1996) addressed this issue for both part-time and low-wage workers as well. States examine earnings and hours in a base period which consists of four calendar quarters long to see if UI claimants can demonstrate labor force attachment. In many states, someone working either half-time at the state average covered wage or full-time at the state minimum wage would not qualify for UI benefits. The Advisory Council on Unemployment Compensation (ACUC) (1996, p. 20) recommended that "each state should set its law so that its base period earnings requirements do not exceed 800 times the state's minimum hourly wage, and so that its high quarter earnings requirements do not exceed one-quarter of that amount." The intent of the ACUC was to improve the likelihood that part-time and low-wage workers who work at least 40 percent of the work year would be able to collect UI.

(b) If two or more part-time jobs were held and one is lost, is there eligibility for UI benefits? Eligibility is possible in many states, but the answer depends on the level of prior income and current income. All states will pay a weekly UI benefit to claimants with sufficient prior earnings if current weekly income drops to a low but positive level. Most states have a lump sum earnings disregard. There are 11 states which have both a disregard and a benefit reduction tax rate on earnings.

In 1994-1995, a field experiment was conducted in Washington state to evaluate whether liberalizing the benefit reduction formula would increase work effort.²⁰ The control group of 208,818 UI beneficiaries from that experiment provides some insight into earnings while in claims status by older workers. For the control group, under then existing Washington state law, the earnings disregard was \$5 per week and benefits were reduced by 75 percent of weekly earnings above \$5. As shown in Table 8, workers 45 years of age and older tended to have more weeks with a UI payment and more weeks with reported earnings and a UI payment. It is interesting to note that this pattern is most exaggerated for the oldest group of workers—those 65 years of age and over—who also had a significantly lower average weekly benefit amount.

²⁰O'Leary (1997) found that liberalizing the benefit reduction formula increased earnings reported to the employment security department, but did not increase work effort.

(c) Will a beneficiary lose UI eligibility for refusing a new job because it is full-time rather than part-time? State UI laws would generally disqualify beneficiaries from the receipt of benefits. The beneficiary would lose eligibility for refusing suitable work, provided that the available job was in the usual occupation and paid a wage close to that paid for recent similar work. Thus, the UI program continues to expect that the norm for labor force participation is full-time employment and that only job seekers for such jobs should continue to receive UI.

(d) Will a beneficiary lose UI eligibility for refusing a new job because the hours of work would conflict with required hours on a currently held part-time job? State rules would suspend UI benefit eligibility for failing to satisfy the availability requirement for job search. Current UI eligibility rules are based on the assumption that people leave full-time work and seek return to full-time work.

Thus, all part-time workers experience severe difficulty when they apply to receive benefits. Even if they succeed in initially receiving benefits, they are in danger of loss of benefits if they are not prepared to accept a full-time job. Since they participate in part-time work at a greater rate than others, older workers are particularly disadvantaged from receiving UI by these eligibility rules.

5. Adequacy of Benefits

UI provides temporary partial wage replacement to active job seekers who are involuntarily out of work. The level of the weekly benefit amount (WBA) is directly related to the prior level of earnings. Having a wage-related benefit reinforces the concept that unemployment insurance is an earned right, based on contributions required by law to be paid by the worker's employer as "insurance premiums" against the risk of unemployment. The wage-related benefit is intended neither to improve a prior low standard of living nor to support a sumptuous living standard created by a high income. Because UI is a *social insurance* program with the fundamental social aim of preventing wide-spread poverty, all states impose UI maximum benefit rates to spread benefits as widely as is practical.

The adequacy of the weekly benefit amount in performing the income maintenance function can be gauged by the percentage of lost income which benefits replace—the replacement rate. Since the beginning of the federal-state UI program in the United States, there has been general acceptance of the idea that the weekly benefit should replace one-half of the worker's lost weekly wages.²¹ More broadly, adequacy depends on how well UI benefits help to maintain usual levels of household expenditure. We will briefly examine both of

²¹O'Leary and Rubin (1997), pages 166-169.

these concepts for older workers. Naturally, the latter considers all sources of income while out of work including dissaving, pensions, and other household members. To understand the role of UI in supporting income security of older workers, it is important to clearly understand the interaction of pensions and UI. We give special attention to this topic.

As shown in Table 9, the weekly benefit amount (WBA) for UI claimants rises steadily with age up until age 65. While the WBA averaged \$202 in 1998 across all age groups, it averaged only \$157 for workers aged less than or equal to 24 and reached \$216 for workers aged 55 to 64. The average WBA for workers 65 and over was only \$174. The decline for these oldest workers most likely is related to the fact that workers aged 65 and over often move into lower wage "bridge employment" as they near full retirement age (Quinn, 1999). As shown in Table 9, the normal hourly wage for the 65 and over group is appreciably lower than that for the 55 to 64 age cohort. This dip translates into a dip in the base period wage rate, since base period weeks worked are on a par with younger age groups.

A common summary measure of UI benefit adequacy is the wage replacement ratio. While this gross average ratio of mean WBA to mean weekly earnings is a crude measure of adequacy with well

documented deficiencies, it is a commonly used measure.²² By this measure Table 9 suggests that UI wage replacement tends to decline with age until after age 64. Meeting the UI benefit adequacy standard of one-half wage replacement may actually mean beneficiaries are receiving more than half of potential future wages. This is most likely true for displaced workers, who gain reemployment at average wages 20 percent below prior levels and suffer greater wage reductions if they are forced to find work in a new industry or occupation.²³ Even if not displaced, it may be true for many older workers who voluntarily seek bridge employment after job separation later in their careers. Quinn (1999) points out that bridge employment is usually for fewer hours if in the same occupation and for lower wages if in a different occupation than the career job.

Receipt of pension income had no effect on weekly UI benefit payments until federal rules applied for special extended benefits authorized during the 1961 recession. In response to these recessionary rules, the states experimented with alternative treatment of pension income by UI beneficiaries. Merrill Murray (1967) investigated the question, *Should pensioners receive unemployment compensation?* based on a collection of 12 state studies of practices

²²O'Leary (1998, pp. 66-71) discuss the deficiencies of such aggregate average measures.

²³See the estimates of Jacobson, Lalonde, and Sullivan (1993).

and effects. He argued that there should be no reduction in UI benefits because of pension receipt, that UI is social insurance based on prior work experience which should be paid with dignity and dispatch to eligible claimants with no means test applied. Furthermore, he asserted that the state studies showed pensioners who were UI beneficiaries were not becoming wealthy from "double dipping." He wrote that, "the chief reason that pensioners work or seek work is economic necessity. Pensions are, in most instances, insufficient to provide even a modest but adequate income" (Murray 1967, p. 37).

Nonetheless, 1976 federal UI amendments (Public Law 94-566) required a dollar-for-dollar reduction of UI payments against "any governmental or other pension, retirement or retired pay, annuity, or any other similar periodic payment which is based on the previous work of such individual." (U.S. Department of Labor 1999, p. 4-19) The rule applies only to payments from plans established by the base period or UI chargeable employer. States may disregard pension income if established by other than a base period employer, except that Social Security and Railroad Retirement benefits reduce UI dollar-for-dollar regardless of when entitlement was established. Also, states are permitted to reduce UI by less than each dollar of pension income if an employee's own contributions helped establish the pension benefit.

Currently, among the 53 state UI programs, 38 pro-rate UI benefit reductions for employee contributions to pension plans, and 28 states disregard benefits received from pensions established outside of the base period. In recent years, states have experienced administrative difficulty when pension accumulations in employer-established defined contribution plans (401k) are rolled over into individual retirement accounts (IRA). Since the IRA may have been previously established with direct personal contributions, the state faces a complex problem determining the proportion of IRA distributions to disregard. The problem is further complicated when it is recognized that 401k type funds may include both employer and employee contributions.

To understand the importance of UI in maintaining living standards for older workers consider the percentage of aged household units with income from various sources. Table 10 shows that the proportion having income from earnings declines with age. For the three age groups 55 to 61, 62 to 64, and 65 plus, the respective percentages with earnings were 80, 63, and 21; conversely for the same three groups, the percentages with retirement income were 27, 63 and 93, respectively. A uniform 61 to 63 percent had asset income, and a uniform 6 percent had income from public assistance. UI benefits were received by 6 percent of the 55 to 61 year old group, by 3 percent of those 62 to 64, and by only 1 percent of those 65 or over. Table 11 considers the same three age groups

and reports that the majority of aggregate income comes from earnings and retirement benefits, with the latter most important for the oldest group. The bulk of remaining income is provided from assets, less than one percent from public assistance and approximately 2 percent from other sources including personal contributions and UI.

Only a small fraction of older citizens receive UI, and in total it amounts to a small proportion of their aggregate income. An important question regards the role of UI in maintaining living standards for older workers who do receive UI. Would their economic position be dramatically altered if UI benefits were not provided? These questions were exhaustively examined by Daniel Hamermesh. The following are some of his main findings which anticipate effects of the 1976 UI reforms (Hamermesh 1980, pp. 83-84).

- Unemployment insurance equalizes the distribution of income among older workers compared to what it would be in the absence of UI benefit payments.
- Dollar-for-dollar reduction of UI for receipt of private or public pension income would reduce UI payments by more than 25 percent

among workers aged 59-64 and by over 40 percent among workers aged 61 to 66. Because older Americans generally have lower incomes, this increases the income gap between older workers and others.

- Within the population of households headed by older workers, instituting the pension offset will increase income equality. This is because the majority of those receiving both pension and UI benefits are in the upper deciles of the income distribution for the older population. These households also have a greater ability to maintain consumption during periods of unemployment.
- Among older UI recipients, about half have access to past savings or borrowing in sufficient amounts such that the pension offset would not cause hardship. Families without the capacity to borrow when the head is unemployed cut back mostly on consumption of luxury goods.

- The availability of UI benefits neither induces older workers to remain in the labor force, nor does it facilitate quicker exit from the labor force. However, UI functions as an income transfer to workers who have made the decision to retire.

The social insurance aspect of UI explains the presence of maximum and minimum weekly benefit amounts (WBAs).²⁴ States impose maximum WBAs because the aim is to prevent widespread descent into poverty, not to perfectly smooth consumption for high wage earners.²⁵ The minimum WBA is probably of more concern to older workers, many of whom are involved in part-time and low-wage work. WBA minimums are set in part to relieve the administrative burden of processing weekly payments smaller than some reasonable amount, but the minimum WBA often replaces more than half of lost wages because of the social adequacy requirement to

²⁴A thorough discussion of these matters is provided by O'Leary and Rubin (1997, pp. 194-199).

²⁵The Advisory Council on Unemployment Compensation (1996) recommended a federal standard requiring the maximum weekly benefit amount to equal two-thirds of the statewide average weekly wage, so as to would allow a majority of covered workers to receive at least 50 percent wage replacement.

provide at least a modicum of cash income.²⁶ If UI system changes to broaden reciprocity by low-wage and part-time workers are considered, investigation of minimum WBA policy is needed.

6. Duration of Benefits

In the absence of severe economic conditions which trigger benefit payments of extended duration, the maximum entitled duration of UI benefits is 26 weeks in all but two states.²⁷ Table 12 indicates that the average duration of benefit receipt tends to increase steadily as workers get older. Based on the Benefits Accuracy Measurement (BAM) data, the average duration of benefits across all age groups is 15.9 weeks, with the average duration increasing steadily with age.²⁸ Benefit durations for workers 24 years of age or less averaged 14.7 weeks. The average duration increased with each

²⁶ A 1962 Department of Labor recommendation urged that the minimum "be related to the weekly wages of the lowest wage group in the state for which the unemployment insurance program is considered appropriate" (U.S. Department of Labor, 1962).

²⁷Both Massachusetts and Washington offer regular benefit durations as long as 30 weeks. Woodbury and Rubin (1997) provides an exhaustive review and critique of UI extended benefit programs.

²⁸The Benefit Accuracy Measurement (BAM) data measures the duration of benefits from the beginning date of a worker's benefit year—the date at which they established their eligibility for benefits—until the date when that worker's claim was investigated (the "key week").

age group and reached 16.7 weeks for workers 65 years of age or older.²⁹

In recent years, some countries experiencing severe labor surplus conditions have added a feature to unemployment compensation which is targeted to older workers and is intended to provide income payments as a to bridge private and/or public pension income receipt. In 1976, the Netherlands began paying benefits through age 65 to persons exhausting regular entitlement at age 60 or over; in 1981, the U.K. extended the duration and increased the benefit rate for long- term recipients aged 60 and over; in the mid 1980s, Germany increased the maximum duration of benefits from 12 to 32 months for those aged 54 and over.³⁰ Such early retirement uses of unemployment compensation also became a popular tool for supporting the transition to a competitive labor market in the formerly planned economies of eastern and central Europe. For example, in Hungary where full public pension payments may begin at age 60 for men and 55 for women, beginning in 1991 early retirement unemployment compensation payments were offered at even younger

²⁹These duration estimates underestimate claimant duration because the data is censored, since they represent the claimant's benefit history up until the BAM key week is selected but not after.

³⁰Blackwell, Okba, and Casey (1995, p. 84).

ages.³¹ Within the past 15 years, additional countries have relaxed work search rules for older workers, thereby permitting longer benefit durations.³²

Given the tight labor market conditions in the United States near the end of the twentieth century, it is unlikely that UI program features intended to remove workers from the labor force will be considered in the near future. The pattern of full- and part-time work by older UI beneficiaries suggests a desire for prolonged labor force attachment and greater flexibility in choosing employment and income sources. In addition to recognizing the importance of work transitions between career and bridge jobs and from bridge jobs to full retirement, switches between bridge jobs should be accommodated. Flexibility in UI benefit duration, wage replacement, initial entitlement, and continuing entitlement are all elements in shaping a decision context to encourage continued labor market involvement by older workers.

³¹In Hungary the unemployment compensation financing system partially subsidized early retirement payments for surplus workers in struggling enterprises, and fully paid such benefits when the enterprise was bankrupt (O'Leary 1995, p. 732).

³²Australia in 1987, Belgium in 1985, and New Zealand in 1992 either eliminated or greatly relaxed the work search requirement for older unemployment compensation beneficiaries (Blackwell, Okba, and Casey, 1995, p. 85).

7. Work Incentives

In providing partial wage replacement, the UI system has the potential of prolonging spells of unemployment. Several economists following Feldstein (1974) have reported evidence suggesting that UI lengthens jobless spells beyond what would occur in the absence of UI compensation. Decker (1997) summarizes estimates of how the entitled duration of benefits and the rate of wage replacement affect the length of joblessness.³³ None of the previous research has reported how these effects of UI vary by age.

Two opposite solutions have been tried to solve this principal-agent work incentive problem. Traditional policy has been to monitor work search, while positive reemployment incentives were evaluated through field experiments in the 1980s.

To ensure continuing labor force attachment by beneficiaries and to guard against avoidable joblessness, work search requirements have been part of continuing eligibility rules since the inception of UI. In terms of carrot-and-stick incentives, work search rules represent the stick. Stringency and enforcement of such rules has varied greatly across the states, and the majority of benefit

³³Lengthening the entitled duration of benefits by one week is estimated to lengthen joblessness by between 0.1 and 0.5 weeks, while a 10 percent increase in the wage replacement rate is estimated to increase the joblessness by between 0.3 and 1.5 weeks.

overpayment errors have been traced to improper application of work search rules.³⁴ Work search rules of varying stringency were evaluated in a field experiment conducted in Tacoma, Washington, in 1986-1987. Johnson and Klepinger (1991, 1994) found that eliminating the work test would greatly lengthen the duration of UI benefit receipt. They also found that requiring attendance at a job search workshop four weeks after the claim and an in-person eligibility review interview halfway through the entitled duration of benefits would measurably reduce UI benefit receipt. A subgroup analysis of impacts by age found that those under 25 and those 55 and over behaved similarly to each other and modestly different from other age groups. Both groups increased UI receipt by the most of all age groups when the work search test was relaxed (about 3.3 weeks more for both groups), and reduced UI receipt by the least of all age groups when the work test was strengthened (about -0.4 weeks for both groups). The work test appears to be particularly effective in changing the work search behavior of older workers.

In the 1980s, inadequate forward financing of UI benefits, combined with political efforts to restrain tax increases, led to the exploration of new means for dealing with work disincentive problems while retaining the income maintenance function of UI. A

³⁴Burgess and Kingston (1987, p. 235), cite "difficulty in monitoring claimant compliance with weekly eligibility criteria" as a prime cause for UI payment errors associated with the work test.

variety of new initiatives were tested as field experiments, with the UI reemployment bonus gaining considerable attention.

Decker and O'Leary (1992, 1995) examined the effect of offering cash bonus payments to UI beneficiaries who return to work quickly in Pennsylvania and Washington. Across the two experiments, the average bonus offer of about 4 weeks of benefits for return to work within about 10 weeks shortened UI benefit receipt by just under half a week.

A subgroup analysis by age for the Pennsylvania experiment suggested that the bonus impact decreased with age, with virtually no impact on those over age 55; the Washington results suggested a generally opposite pattern, with older beneficiaries responding more strongly.³⁵ However, in Washington, workers aged over 45 had an appreciably smaller response to biggest bonus offer, which had the largest overall effects. In a pooled analysis of Pennsylvania and Washington data, bonus impacts were virtually identical across the three age groups: under 35, 35 to 54, and 55 plus.³⁶ Age is neither a legal nor an effective characteristic on which to target reemployment bonus offers; however, recent research suggests that bonus offers

³⁵Impact analyses by age for the Pennsylvania experiment are reported by Corson, Decker, Dunstan, and Kerachsky (1992, p. 111), while those for Washington are reported by Spiegelman, O'Leary, and Klein (1992, p. 127).

³⁶Decker and O'Leary (1992, p. 54) report impact estimates by age group for a pooled Pennsylvania and Washington sample while controlling for the interaction of age with other factors.

targeted to those most likely to exhaust benefits may be more cost effective.³⁷

8. Financing Benefits and Potential New Legislation

UI is social insurance; it is neither private insurance nor social welfare.³⁸ Social insurance embodies incentive aspects found in private insurance contracts and eligibility and benefit features required by considerations of social adequacy. Key features which distinguish UI as insurance are related to the financing provisions. UI benefits are financed by employers through experience-rated payroll taxes.³⁹ Experience rating means that employer UI tax rates increase with their experience in laying off workers who subsequently draw UI benefits.⁴⁰

³⁷Recent research suggests that when a low bonus amount with a long benefit duration is targeted to those most likely to exhaust benefits (displaced workers), it appears to be cost effective (O'Leary, Decker, and Wandner, 1998).

³⁸These arguments are developed more completely by Blaustein, O'Leary and Wandner (1997, pp 11-17).

³⁹Employees make small direct contributions in Alaska, New Jersey and Pennsylvania, but it has been estimated by Anderson and Meyer (1995) that employer UI taxes are partly paid by workers who contribute to the system by accepting lower wages.

⁴⁰Principles of experience rating UI taxes are explained in Tannenwald and O'Leary (1997). Estimates of the degree of

When the federal-state UI system was established as part of the Social Security Act of 1935, the experience rating of employer UI taxes greatly helped make the program acceptable to employers. It was reasoned that allocating benefit costs to businesses responsible for unemployment benefit claims would make UI consistent with the free market system. The costs of the goods and services produced by insured workers would thus reflect the costs of any UI benefits paid to them.

Experience rating results in employer involvement in initial eligibility determination and reduces the risk of moral hazard. The United States is the only nation in the world which finances unemployment compensation benefits with experience-rated taxes.⁴¹ It is the main cause of business-labor involvement in the system, but experience rating ensures that UI will not become a dole on a par with social assistance. No stigma attaches to the receipt of UI, "which

experience rating across states are provided by Tannenwald, O'Leary, and Huang (1999).

⁴¹The Netherlands and Poland have considered adopting experience rating of unemployment compensation taxes. Countries outside of the U.S. often levy employer and employee contributions with rates set on a socialized basis to cover recent benefit payments. Unemployment compensation payments often are subsidized by central government general revenues, occasionally this is the only source of financing.

provides compensation for wage loss as a matter of right with dignity and despatch."⁴²

Limitations of state UI tax systems mean that benefits are not always completely charged back to prior employers. Tannenwald and O'Leary (1997) identified a number of factors which interrupt the operation of perfect experience rating: maximum and minimum tax rates, limits on the taxable payroll, time lags, and exclusions.⁴³ The exclusions include state contributions to extended benefits, benefits paid to former employees of bankrupt firms, and dependents allowances. Benefit payments which are not charged back to prior employers are said to be socialized. They are paid for by tax features which are usually not experience-rated, but instead collected as a fixed percentage of the taxable payrolls at UI covered employers.

For 65 years, the experience rated UI tax system has operated to finance hundreds of billions of dollars in UI benefits. Except for occasional and temporary loans to the states, the basic system has operated independent of general tax revenues. The federal-state UI system currently holds in excess of \$50 billion in the Unemployment Trust Fund (UTF) and has annual revenues and benefit payments of

⁴²Blaustein (1993), p. 47, from a statement of UI objectives issued by the U.S. Department of Labor, Bureau of Employment Security in 1955.

⁴³For example, when an employer's UI tax rate is at the maximum of the range, additional UI benefit charges do not change the tax rate on wages. Tannenwald and O'Leary (1997) explain that in such circumstances subsidies flow from other employers.

about \$20 billion (U.S. Department of Labor, 1999). Since the Unified Budget Act (UBA) of 1969, money held in the UTF is accounted for in the annual budget of the United States government.⁴⁴

From the time of UBA enactment through 1997, the federal government experienced annual budget deficits; in these years, the UTF surplus was hoarded to improve federal unified budget reports. The current federal government budget surplus and projections for future surplus budgets have raised policy interest in expanded uses of UTF money.

A particular policy concern of the Clinton administration has been the decline in the ratio of the insured to total unemployment rate (IUR/TUR), that is, the decline in the reciprocity ratio. This decline threatens both the aggregate adequacy of income replacement and the built-in stabilizer function of the UI benefit system for the macro-economy.

We have recognized that displaced older workers have difficulty gaining reemployment at wages which match their career jobs, and that voluntary transition from career jobs is often done gradually by a shift to part-time work on the career job, or to a bridge job which usually pays substantially less per hour of work. Late in life, workers make transitions from career jobs to bridge jobs, between bridge jobs, sometimes back to career jobs, and eventually

⁴⁴West and Hildebrand (1997, p. 575).

to full retirement with income from pensions and assets. What improvements in the federal-state UI system would best facilitate these transitions, and what would be their financing implications?

Changes in UI eligibility rules to accommodate workers in low-wage labor markets and workers with preferences for part-time work could be financed within the current experience rating framework.⁴⁵ As recommended by the ACUC (1996), permitting initial eligibility for those working 800 hours in the base period, regardless of base period wages, would benefit the low wage group. Changing continuing eligibility requirements concerning "refusal of suitable work" to include not only customary wage and occupation, but also customary hours per week, is a practical solution. These expansions would impose UI tax cost increases on employers in low-wage industries such as retail and hospitality, who customarily pay UI taxes at the minimum rate. However, such increases would be shared in part by employees through moderation in wage increases, and subsidies flowing from these industries to high-wage high lay-off industries such as construction and manufacturing would diminish.

⁴⁵These and related issues are discussed in a broader context by O'Leary and Wandner (1997, pp. 714-716). Other policies to increase UI reciprocity such as broadening coverage to seasonal and employees of small farms are to a lesser degree important to older workers, but could also be financed within the experience rating framework.

Some other UI-related policy accommodations to older workers, which may be tempting given federal budget surplus projections and the aim of broadening UI reciprocity, would most certainly be financed from socialized rather than experience-rated taxes. Dependents allowances are financed by socialized taxes because they stretch the social insurance standard which sets a weekly maximum on partial income replacement because of the aim to prevent decent into poverty. While not relevant to older workers, in the spring of 1999, President Clinton announced his desire to use the UI system to provide "Birth and Adoption Unemployment Compensation." Such a program would most certainly be financed by socialized UI taxes.⁴⁶ A similar financing scheme would be most natural for extensions of UI more relevant to older workers, such as paying health insurance premiums for the unemployed or providing early retirement unemployment compensation payments to support transition to pension income.⁴⁷

⁴⁶The proposed rule for Birth and Adoption Unemployment Compensation allows states to determine whether the benefits would be experience rated or socialized. *Federal Register*, volume 64, number 232, pages 67971-67979. Pear (1999) describes the political dispute over President Clinton's plan to pay cash benefits to those on parental leave from the unemployment trust fund.

⁴⁷In 1995 President Clinton "mentioned finding some way to help workers who lose their jobs keep their health insurance while they look for work. Under federal law they can continue their policy for a year and a half by paying 102 percent of the combined employer-employee premium, but many cannot afford to do so. Clinton favors some form of subsidy to help them"

9. Interaction with other Employment Programs

While discussing the adequacy of UI for older workers, we described the interaction between UI and Social Security retirement payments—federal law requires that UI benefits be reduced by one dollar for each dollar of Social Security benefits received. In this penultimate section of the paper we examine UI interactions with other employment programs which may be of relevance for older workers.

The strongest linkage between UI and Employment Service (ES) programs is provided through the work test for continuing UI eligibility. Many state UI laws require registration with and active use of ES services to maintain established UI benefit entitlement. For a variety of reasons, including the fact that UI payment errors have often been due to improper application of statutory work search rules, many states have relaxed their work test.⁴⁸ These changes have weakened the link between UI and ES.

(Rich, 1995) On December 17, 1999, the Ticket to Work and Work Incentive Improvement Act (Public Law 106-170) was enacted; it allows the extension of Medicare for those on Social Security Disability Insurance and Medicaid for those on Social Security Income after recipients earnings rise above a given level.

⁴⁸Burgess and Kingston (1987) identify the work test as a main source of UI overpayments, citing the complexity of the ES-UI monitoring as part of the problem.

The UI-ES linkage was renewed and strengthened in 1993 by federal legislation creating the Worker Profiling and Reemployment Services (WPRS) system. The legislation required states to establish procedures for early identification of UI beneficiaries likely to exhaust their UI benefit entitlement and to refer these persons quickly to special reemployment services. State UI and ES agencies were identified as key partners in the WPRS, and Job Training Partnership Act (JTPA) service delivery agencies were encouraged to cooperate and provide reemployment services, particularly for their Economic Dislocation and Worker Adjustment Assistance (EDWAA) Act clients.

Most states choose to implement the WPRS system using a statistical profiling model. The U.S. Department of Labor developed a prototype statistical model and provided training to the states in how to adapt principles of the prototype for their own uses. To examine the model sensitivity, the preliminary prototype prepared by the U.S. Department of Labor included an age variable to help predict the likelihood of UI benefit exhaustion. This variable and certain others, however, are prohibited by federal civil rights legislation and were excluded from the final model recommended by the Department of Labor. Nonetheless, an analysis was conducted to determine the impact of dropping the prohibited variables. In the case of age, it was found that even though age was a significant variable, the effect of the age variable was largely accounted for by the variable tenure on

the prior job, which was adopted in the final model (Wandner, 1998).

Table 13 presents predicted and actual UI benefit exhaustion rates by age group, computed on a sample of beneficiaries drawn in Michigan before the WPRS was implemented. This sample was used to estimate the Michigan WPRS profiling model (Eberts and O'Leary, 1996). Because of the civil rights prohibition, age was not included in the logit models estimated to predict UI benefit exhaustion in Michigan. The table shows that the actual UI exhaustion rate for beneficiaries aged 65 and over is appreciably higher than for other age groups and that the Michigan model predicts a modestly higher exhaustion rate for that group. However, the actual exhaustion rate for all the age groups less than 65 is nearly uniform, ranging between 21 and 25 percent. The Michigan profiling model was estimated using non-linear methods and predicts the likelihood of exhaustion to increase exponentially with age. This pattern was most likely captured by the tenure variable. The model indirectly identifies those permanently separated from their employer and industry, because they are likely to be long-term UI beneficiaries. Research by Chan and Stevens (1999) and others suggests that unemployed older workers have a greater risk of prolonged jobless spells. Data is not available on the age distribution of those referred to WPRS job search workshops, but it is likely to include older workers in high proportion to their numbers in UI benefit receipt. It

should be mentioned that both program staff and participants have responded very positively to the special services given those profiled and referred by the WPRS system (Dickinson, Decker, and Kreutzer, 1999).

In addition to the WPRS system, several other global changes are now changing the way that UI interacts with other employment programs and the way that clients interact with UI. The local administration of UI is rapidly changing from in-person interviews to taking claims by telephone. The new telephone systems are being used for the filing of both new initial claims and continuing claims. Less and less do unemployed workers wait in line at a UI claims center. Unless older workers are either called in to attend a job search workshop because of the WPRS or called to attend an eligibility review interview to review their job search efforts and plans, they may never enter a physical location for UI services. By 1998, half or more of continued claims in 35 states were taken by telephone (24 states took more than three-quarters of these claims by telephone). Furthermore, 11 states took about half or more of their initial claims by telephone.⁴⁹ This move to telephone claims is now accelerating.

⁴⁹ Based on state UI Benefits Accuracy Measurement (BAM) data for 1998.

Sweeping change in the public reemployment services landscape is coming soon because of requirements of the Workforce Investment Act (WIA) of 1998. This law requires that public One-Stop Career Centers be established in local areas to deliver a coordinated package of reemployment services including UI, ES, skill retraining and referral to other employment programs. While UI is a required partner at one-stop career centers, the trend toward telephone claims suggests that it may be present simply as a telephone on the wall over which UI claims can be made.

By July 2000, when WIA becomes operational nationally, an older worker reaching a One-Stop Career Center in most areas will find a different mix of training and employment services than has been offered under JTPA. Under WIA, there is a more structured approach to the provision of services. It is expected that all individuals first entering a One-Stop Career Center will first be offered core services that will consist of self-service and modest staff-assisted services. Only if these core services do not suffice will the individual be offered intensive services which will involve greater staff assistance. Skill training will be offered only after other avenues to employment have been exhausted. It is expected that training will be provided to a smaller proportion of clients than under JTPA.

Under JTPA, most of the services received by older workers were from two special programs: Senior Community Service Employment Program and Services for Older Workers (JTPA Title

II, Section 204(D)). Older workers usually did not participate in regular JTPA programs for disadvantaged adults. Older workers were greatly under represented in their receipt of service under the program for disadvantaged adults (Title IIA). Workers 45 years of age and over amounted to about 45 percent of the eligible population in Program Year 1995, however, those 45 and over received only 13 percent of services. Notably, those aged 55 and over received only 2 percent. For the dislocated worker program (Title III), workers 45 years of age and over were proportionally represented, being about one-third of both the eligible and service receiving populations (Poulos and Nightengale, 1997).

The aim of new One-Stop Career Centers under the Workforce Investment Act (WIA) is to attempt to serve all workers who seek assistance. No single group is targeted for services under WIA; instead, a wide variety of services can be accessed by all workers.

Under the JTPA program, services for older workers were specified under Section 204(D), and section 202(c)(1)(D) required that 5 percent of the federal allocation to states had to be used for these older worker services. No similar provision exists under the WIA to differentiate older workers from other adults. On the other hand, in the establishment of the one-stop delivery system under WIA, there are a number of required partners and programs. Some activities provided by the Older Americans Act of 1965 are part of the

required partnerships.⁵⁰ The result is that older workers will have certain activities available under WIA, but these activities will not have special funding. Older workers will be treated differently, but they will be subject to same funding constraints and have the same availability of services as any other adult worker when entering a One-Stop Career Center.⁵¹

There is a separate employment program funded by the federal government for older workers. The Senior Community Service Program provides part-time employment, at least 20 hours per week, in community service activities for older workers. This program is funded by an annual federal appropriation. Strong Congressional support has resulted in a stable funding level for this program in recent years. Congress appropriated \$440.2 million for the program in the 1998 and 1999 fiscal year budgets and has appropriated the same amount for the upcoming year, which will be the first year of full operation under WIA.

⁵⁰WIA section 121(b)(1)(B)(vi).

⁵¹A training and technical assistance guide has been developed for providing special services for older workers under the Workforce Investment Act.

10. Topics for Future Policy Analysis and Research

In studying economic security for older workers, considerable attention should be given to unemployment insurance (UI) as a source of income security and as a potential influence on work incentives. Current policy reviews, such as the one by the Committee for Economic Development (1999), which have explored how the private sector can make better use of older workers in the labor force, consider the impact of governmental policy with respect to Social Security and Medicare on older workers, but they do not address the important role of UI.

Previous policy analysis and research which does examine UI and older workers has tended to be based on an earlier and more simplistic model. It was a model of a single transition near the end of the working life: a one-step move from full-time work in a career job to full retirement. That model is rapidly being replaced by one involving a chain of employment transitions: from career job to bridge job, between bridge jobs, perhaps back from a bridge job to a career job, and finally a gradual movement into to full retirement while out of the labor force.

New research should address how UI influences the choice and timing of the wide variety of labor market transitions which happen in the second half of the working life. Many older workers are already electing to work rather than retire and to remain in their

current communities rather than to move to retirement communities. This trend is likely to continue strongly in the future. In particular, the role of part-time work and self-employment are likely to be very important the future. A recent survey sponsored by the American Association of Retired Persons (AARP) found that four-fifths of all workers born between 1946 and 1964, the "baby-boomers," intend to continue working after retirement: 58 percent in part-time employment; 5 percent in full time employment "doing something different;" and 17 percent in self employment (Roper-Starch, 1999).

Demographic patterns in United States labor markets at the end of the twentieth century suggest that it would be wise to investigate and develop policies to encourage the continued labor market participation of older workers. Employer groups are increasingly concerned about maintaining labor market participation of older workers, given the smaller cohorts that will follow. They want the supply of skilled labor that older workers embody available for productive use. The new study by the Committee on Economic Development (1999), entitled "New Opportunities for Older Workers," is really about what employers and, to a lesser extent, government can do to retain and hire older workers. This study seems to focus more on the basic decision to work or not, rather than the ongoing decisions that older workers continually need to make about what type of employment to pursue and what to do if a given

job ends. More attention needs to be paid to the impact of UI as a source of income and as an influence on work incentives for older workers.

Changes in UI rules concerning initial eligibility, continuing eligibility, wage replacement, and partial benefits should all be examined to evaluate effects on the likely employment patterns of older workers. Particular attention should be given to UI features affecting the choice of self-employment, part-time work, seasonal work, and agricultural jobs.

The financing consequences of possible UI program changes should also be estimated, as should the macroeconomic impact of broadening reciprocity. UI program features which would promote flexible and extended labor force participation by older workers, should also enrich the employment choice environment for other workers. Therefore, it would be useful to examine the impact of such program changes on UI as a built in stabilizer of aggregate expenditure.

The UI program has an impact on whether workers choose to work or to enjoy leisure. The potential impact of policy change in the areas outlined, would probably have a greater impact on the behavior of older workers than on younger workers who are strongly attached to the labor force. As our society tries to retain older workers in the labor force, we need to look closely at the current and potential role of UI.

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Table 1. Labor Force and Unemployment Concepts by Age for the United States, 1998

	Total	<=24	25-34	35-44	45-54	55-64	>=65
Labor force ¹ (thousands)	137,673	21,939	32,813	37,536	28,368	13,215	3,847
Percent of the labor force		15.9	23.8	27.3	20.6	9.6	2.8
Total unemployed ² (thousands)	6,210	2,286	1,419	1,258	782	343	122
Percent of total unemployed		36.8	22.9	20.3	12.6	5.5	2.0
Percent of insured unemployed ³		8.9	25.8	29.6	20.6	10.9	2.5

¹Data from the *Handbook of U.S. Labor Statistics*, Third Edition, 1999, Table 1-6.

²Data from the *Handbook of U.S. Labor Statistics*, Third Edition, 1999, Table 1-26.

³Unpublished data from the U.S. Department of Labor, UI Service. Age information not available for 1.8 percent of beneficiaries.

Table 2. Age Distribution of the Insured Unemployed in the United States, 1998.

	Total	<=24	25-34	35-44	45-54	55-64	>=65	INA
United States	2,222,936	8.9	25.8	29.6	20.6	10.9	2.5	1.8
Alabama	29,151	10.5	27.2	29.7	20.1	10.1	2.2	0.2
Alaska	12,049	10.1	28.0	33.5	20.1	7.1	1.2	0.0
Arizona	19,114	7.1	25.5	32.3	22.7	10.7	1.7	0.0
Arkansas	25,803	11.5	28.4	30.6	18.7	9.0	1.7	0.0
California	372,144	8.6	26.8	31.3	20.3	10.4	2.6	0.0
Colorado	17,341	5.7	24.2	34.0	25.1	10.2	0.8	0.0
Connecticut	31,180	6.7	24.6	29.6	21.5	13.8	3.8	0.0
Delaware	6,266	8.3	28.4	32.6	18.9	8.9	2.4	0.6
DC	6,996	0.9	7.1	20.0	33.4	28.8	10.0	0.0
Florida	77,398	5.1	22.7	29.4	23.2	13.8	5.4	0.5
Georgia	32,709	7.0	25.3	28.7	19.4	9.1	2.0	8.6
Hawaii	12,555	6.9	25.5	29.7	23.1	11.4	3.5	0.0
Idaho	13,080	9.8	25.0	30.3	21.9	11.0	1.7	0.3
Illinois	103,556	7.7	27.0	31.7	20.5	10.4	2.7	0.0
Indiana	30,602	7.5	24.0	28.7	21.1	10.3	1.9	6.5
Iowa	15,792	9.7	24.9	30.7	20.8	11.3	2.5	0.0
Kansas	13,253	7.4	25.3	33.4	22.0	10.2	1.7	0.0
Kentucky	26,654	8.6	26.7	30.9	22.1	9.8	1.9	0.0
Louisiana	22,605	7.7	26.4	32.6	21.5	9.9	1.8	0.1
Maine	11,348	7.8	24.1	27.0	19.8	10.1	2.2	9.1
Maryland	33,912	18.1	25.8	27.9	17.1	8.6	2.5	0.0
Massachusetts	63,678	7.4	26.6	30.3	21.3	11.8	2.4	0.0
Michigan	88,770	9.1	26.8	31.3	21.3	9.7	1.9	0.0
Minnesota	33,105	9.6	26.2	30.7	20.8	10.9	1.9	0.0
Mississippi	18,669	9.8	27.1	31.1	20.6	10.1	1.4	0.0
Missouri	42,875	9.0	26.7	31.8	19.8	9.9	2.8	0.0
Montana	8,419	8.6	24.0	32.9	22.2	10.0	2.2	0.0
Nebraska	6,718	9.8	26.6	30.6	20.6	10.1	2.2	0.0
Nevada	17,531	6.3	23.6	30.2	22.7	12.9	3.9	0.3
New Hampshire	3,691	4.7	20.5	31.3	26.8	13.7	3.2	0.0
New Jersey	91,211	8.0	26.1	28.4	20.4	12.6	4.4	0.0
New Mexico	11,530	6.5	26.5	32.2	22.0	10.8	2.0	0.0
New York	169,950	7.3	21.9	22.6	16.6	9.8	3.3	18.6
North Carolina	47,953	9.2	27.1	29.9	20.9	10.5	2.4	0.0
North Dakota	3,625	8.5	24.2	31.1	21.3	10.8	2.8	1.3
Ohio	70,724	7.6	25.6	32.1	23.3	10.4	1.0	0.0
Oklahoma	12,536	7.1	24.4	32.1	22.7	11.3	2.3	0.0
Oregon	42,758	17.9	28.6	28.4	17.3	5.8	1.1	0.9
Pennsylvania	142,903	9.5	24.1	28.4	22.3	12.8	2.8	0.3
Puerto Rico	58,341	19.6	32.3	23.5	16.1	7.5	1.1	0.0
Rhode Island	13,294	7.3	24.7	29.3	21.0	12.8	4.9	0.0
South Carolina	24,323	5.4	19.7	23.8	17.0	32.3	1.7	0.0
South Dakota	2,309	7.7	18.6	27.6	23.4	16.8	5.9	0.0
Tennessee	41,157	7.9	24.1	28.4	22.3	13.0	4.1	0.3
Texas	111,624	9.5	27.9	31.0	20.8	9.4	1.5	0.0
Utah	9,619	13.8	28.5	30.0	19.1	8.1	0.5	0.0
Vermont	5,716	10.3	25.5	28.8	20.6	11.4	3.4	0.0
Virgin Islands	575	8.4	21.7	24.6	21.5	10.9	1.6	11.2
Virginia	23,737	6.8	26.0	32.2	22.9	10.9	1.0	0.1
Washington	72,273	9.0	27.2	30.9	21.8	9.6	1.5	0.1
West Virginia	16,455	8.2	25.9	30.5	24.4	10.6	0.4	0.0
Wisconsin	50,033	9.7	26.2	30.7	20.3	10.8	2.3	0.0
Wyoming	3,330	11.0	25.6	31.9	20.7	9.3	1.1	0.5

Source: Unpublished U.S. Department of Labor data on claims filed for UI in the week including the 12th of each month.

Table 3. Long-Tenured Displaced Workers, 1995-1996 (%)

	Age Groups					
	20-24	25-34	35-44	45-54	55-64	>=65
Displacement rates	1.9	2.9	3.0	3.0	3.3	3.5
Employment status in February 1998:						
Employed	a	88.5	89.0	87.2	63.6	47.2
Unemployed	a	2.5	4.2	5.3	7.7	5.5
Not in labor force	a	8.6	6.7	7.5	28.8	47.3
Among the displaced:						
Reemployed full-time	60.0	74.6	74.9	56.0	47.8	20.7
Among those reemployed full time, the percent experiencing an earnings loss of 20 percent or more	a	24.6	23.8	24.5	38.2	a
UI reciprocity rate	0.30	0.53	0.51	0.49	0.53 ^b	
UI exhaustion rate	0.19	0.45	0.52	0.54	0.70 ^b	

^a Percentage not reported where the base is less than 75,000.

^b Values for age 55 and over.

Source: Hipple(1999a) first 6 rows; Hipple(1999b) last two rows.

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Table 4. Percentage Distribution by Age of UI Beneficiary Characteristics in the U.S., 1998

	Age Groups					
	Total	<=24	25-44	45-54	55-64	>=65
<u>Citizenship</u>						
U.S. Citizen	89.5	90.3	88.8	90.3	90.3	94.2
<u>Gender</u>						
Male	56.7	58.3	57.2	56.6	54.9	49.2
Female	43.3	41.7	42.8	43.4	45.1	50.8
<u>Education</u>						
No formal schooling	0.5	0.1	0.3	0.7	1.1	1.9
< High School	20.9	19.6	19.4	20.4	27.5	33.1
High School Graduate	42.2	51.1	42.4	39.2	42.4	34.8
Some college, but no degree	20.8	24.1	21.9	20.9	14.2	13.0
Associate's degree	4.9	2.4	5.4	5.5	3.5	3.2
BA/BS	8.2	2.6	8.7	9.1	7.1	11.4
Graduate degree	2.5	0.1	1.9	4.4	4.2	2.6
<u>Ethnic Group</u>						
White	63.1	56.8	59.8	67.4	74.0	73.8
African American	15.4	13.8	17.3	13.9	10.9	10.7
Hispanic	17.6	25.3	19.1	14.8	11.5	11.1
Native American	0.9	1.1	1.0	0.9	0.5	0.5
Asian/Pacific	2.9	2.9	2.7	3.0	3.2	3.8
<u>Last Occupation</u>						
Professional	17.5	7.8	17.2	20.6	19.8	17.2
Clerical	14.1	17.5	14.2	12.8	14.2	13.7
Sales	5.5	7.1	5.1	4.9	6.1	11.2
Services	11.2	11.6	11.6	9.6	10.3	18.8
Processing	3.7	4.2	3.6	3.5	4.5	4.9
Machine Trades	5.6	5.5	5.4	6.5	6.2	2.8
Bench Work	7.0	6.6	6.7	7.7	7.8	6.3
Structural	17.3	18.0	18.4	16.6	15.3	6.8
Miscellaneous	12.2	14.3	11.9	12.2	11.5	14.0
Agriculture/Mining	5.8	7.2	6.1	5.5	4.3	4.4

Table 4. (continued)

	Age Groups					
	Total	<=24	25-44	45-54	55-64	>=65
<u>Last Industry</u>						
Agriculture/Mining	6.9	8.3	7.1	6.5	5.7	6.4
Construction	15.0	15.0	15.8	14.7	13.0	6.5
Manufacturing	21.5	21.0	20.0	24.6	24.7	14.1
Transportation, Utilities,& Communication	5.1	3.8	4.9	5.6	6.2	5.7
Trade	16.9	19.7	16.8	16.1	15.9	21.2
Finance/Insurance/Real Estate	3.7	1.9	3.8	3.5	4.3	5.9
Services	27.4	25.2	28.1	25.7	27.0	36.0
Public Administration	3.2	4.3	3.1	3.0	2.6	4.1
Other	0.5	0.7	0.4	0.4	0.5	0.2

Source: Unpublished Benefit Accuracy Measurement (BAM) data for calendar year 1998, U.S. Department of Labor.

Table 5. Employed and Self-employed by Age in the United States, 1998

	Total	<=24	25-34	35-44	45-54	55-64	>=65
Employment							
Total	131,463	19,611	31,395	36,278	27,587	12,873	3,725
Non-agriculture	128,084	19,009	30,677	35,486	26,991	12,477	3,448
Wage and salary	119,019	18,694	29,146	32,750	24,565	11,066	2,800
Self-employment	8,962	299	1,513	2,710	2,403	1,399	639
Non-paid family	103	16	18	26	23	12	9
Agriculture	3,379	602	718	792	596	396	277
Wage and salary	2,000	519	531	473	275	149	53
Self-employment	1,341	64	179	314	319	245	221
Non-paid family	38	19	8	5	2	2	3
Share of total employment in group (%)							
Non-agriculture	97.4	96.9	97.7	97.8	97.8	96.9	92.6
Wage and salary	90.5	95.3	92.8	90.3	89.0	86.0	75.2
Self-employment	6.8	1.5	4.8	7.5	8.7	10.9	17.2
Non-paid family	0.1	0.1	0.1	0.1	0.1	0.1	0.2
Agriculture	2.6	3.1	2.3	2.2	2.2	3.1	7.4
Wage and salary	1.5	2.6	1.7	1.3	1.0	1.2	1.4
Self-employment	1.0	0.3	0.6	0.9	1.2	1.9	5.9
Non-paid family	0.0	0.1	0.0	0.0	0.0	0.0	0.1

Source: Employment and Earnings, Volume 46, Number 1, January 1999, Table 15.

Table 6. Return-to-Work Issues for UI Beneficiaries

		Age Groups				
	Total	<=24	25-44	45-54	55-64	>=65
<u>Recall Status</u>						
No recall	65.0	63.2	66.1	64.8	62.5	56.3
Definite recall	9.7	6.7	9.5	10.3	11.1	13.8
Indefinite recall	20.4	24.8	19.4	20.5	21.0	24.4
N/A (partial)	4.9	5.3	5.0	4.4	5.4	5.5
<u>Work Search Requirement</u>						
No WS requirement	9.3	11.0	9.1	8.8	9.7	10.0
WS required	70.0	71.4	70.4	69.6	68.3	68.2
WS temporarily suspended	1.0	1.2	1.0	0.8	0.9	0.3
Union deferral	5.0	2.2	4.6	6.4	6.2	3.0
Job attached	12.8	11.1	12.7	12.6	13.6	17.2
Other deferral	2.0	3.2	2.1	1.8	1.3	1.2
Registered with a private employment agency	4.0	3.4	4.1	4.5	3.4	1.6

Source: Unpublished Benefit Accuracy Measurement (BAM) data for calendar year 1998, U.S. Department of Labor.

Table 7. Employed and Unemployed Full-time and Part-time by Age in the United States, 1998

	Total	Age Groups		
		<=24	25-54	>=55
Total employment	131,463	19,611	95,259	16,597
Full-time	108,202	11,593	84,274	12,336
Part-time	23,261	8,016	10,985	4,261
Total unemployment	6,209	2,286	3,459	464
Seeking full-time work	4,916	1,494	3,097	325
Seeking part-time work	1,293	792	362	139
Percent of Total Employment				
Full-time	82.3	59.1	88.5	74.3
Part-time	17.7	40.9	11.5	25.7
Percent of Total Unemployment				
Seeking full-time work	79.2	65.4	89.5	70.0
Seeking part-time work	20.8	34.6	10.5	30.0

Source: Employment and Earnings, Volume 46, Number 1, January 1999, Table 8.

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Table 8. Part-time Earnings and UI benefits in Washington State, 1994-95

	Mean	<=24	25-34	35-44	45-54	55-64	>=65
Earnings when on UI claim	1,218	443	967	1,485	1,766	1,853	1,133
UI amount received (\$)	2,731	1,583	2,596	3,050	3,316	3,320	2,724
UI when earning (\$)	184	96	167	212	233	230	196
UI when not earning (\$)	2,547	1,486	2,429	2,839	3,083	3,090	2,529
Percent of UI dollars							
When earning	6.7	6.1	6.4	7.0	7.0	6.9	7.2
When not earning	93.3	93.9	93.6	93.1	93.0	93.1	92.8
Weeks with UI receipt	13.4	10.2	13.0	14.1	15.0	15.9	17.6
Weeks UI when earning	1.8	1.1	1.6	1.9	2.2	2.4	2.7
Weeks UI when no earning	11.7	9.1	11.4	12.2	12.8	13.5	14.9
Percent of weeks with UI							
When earning	13.1	10.9	12.1	13.7	14.6	14.9	15.3
When not earning	86.9	89.0	87.9	86.3	85.5	85.1	84.7
Weekly Benefit Amount (\$)	214	154	210	234	239	235	169
Base Period Earnings (\$)	17,110	10,357	15,878	19,419	20,876	20,873	13,585
High Quarter Earnings (\$)	6,237	4,005	5,833	7,006	7,496	7,427	4,917
Sample Size		32,176	69,216	58,367	33,429	13,655	1,975

Table 9. Benefit and Earnings Measures for UI Beneficiaries in the US, 1998

	Age Groups					
	Total	<=24	25-4	45-54	55-64	>=65
Weekly benefit amount (WBA) (\$)	202	157	201	215	216	174
Normal hourly wage (\$)	12.14	8.69	11.72	13.76	13.68	11.50
Lowest acceptable hourly wage (reservation wage) (\$)	10.28	7.38	9.96	11.48	11.55	10.17
Reservation wage/normal wage (%)	88.0	90.1	88.2	86.5	88.0	91.1
Base period wages (BPW) (\$1,000)	20.0	12.1	19.2	23.8	23.4	15.7
High quarter wages (HQW) (\$1,000)	6.6	4.2	6.4	7.9	7.6	5.5
HQW/BPW (%)	38.8	41.5	38.9	37.9	37.6	40.6
Base period weeks worked	41.1	38.8	41.2	41.2	41.5	41.1
Average weekly wage ¹ (AWW) (\$)	487	312	466	578	564	382
Replacement ratio (WBA/AWW) (%)	41.5	50.3	43.1	37.2	38.3	45.6

¹Average weekly wage is computed as base period wages divided by base period weeks worked.

Source: Unpublished Benefit Accuracy Measurement (BAM) data for calendar year 1998, U.S. Department of Labor.

**Table 10. Percent of Aged Units¹ with Money Income
From Various Sources by Age in the United States,
1996**

	Age Groups		
	55-61	62-64	>=65
Sources of money income:			
Earnings	80	63	21
Wages and salaries	77	59	18
Self-employment income	12	10	4
Retirement benefits	27	63	93
Social security (SS)	13	53	91
Benefits other than SS	18	33	41
Income from assets	63	61	63
Veterans benefits	2	4	5
UI benefits	6	3	1
Workers' compensation	2	2	1
Public assistance	6	6	6
Personal contributions	2	2	1
Number of aged units (in thousands)	10,821	3,951	24,553

¹An aged unit is either a married couple living together or a non-married person.

Source: Social Security Administration, (1998) Table I.1

**Table 11. Shares of Aggregate Income of Aged Units¹ by
Source of Income and Age in the United States, 1996**

	Age Groups		
	55-61	62-64	>=65
Percent of money income from			
Earnings	80.3	61.6	20.0
Retirement benefits	8.7	25.6	58.8
Income from assets	8.2	9.7	18.0
Public assistance	0.7	0.8	0.8
Other	2.1	2.2	2.3
Number of aged units (thousands)	10,821	3,951	24,553

¹An aged unit is either a married couple living together or a non-married person.

Source: Social Security Administration (1998), Table I.1.

Table 12. Outcomes Observed for UI beneficiaries in the Benefits Accuracy Measurement Audit Data.

	Total	Age Groups				
		<=24	25-44	45-54	55-64	>=65
Weekly benefit amount (\$)	202	157	201	215	216	174
Duration of benefits (weeks)	15.9	14.7	15.7	16.3	16.6	16.7
Entitlement based on earnings in more than one state (called a combined wage claim) (%)	2.9	4.0	2.9	3.1	2.2	1.2
Outcomes below refer to the percentage (%) in each age category during the key week.						
Earnings reported	12.2	11.0	12.6	12.0	11.5	10.4
Benefit reduced because of earnings	10.8	7.6	11.4	11.1	10.4	6.4
Other income reported	1.6	0.4	0.8	0.8	4.4	18.6
Benefit reduced because of other income	1.4	0.4	0.8	0.8	3.8	14.3

Source: Unpublished Benefit Accuracy Measurement (BAM) data for calendar year 1998, U.S. Department of Labor.

Note: The duration of benefits is measured from the Benefit Year Beginning (BYB) date to the Key Week. The Key Week is the week in which a payment was sampled for the BAM data.

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Table 13. Predicted and Actual UI Benefit Exhaustion Rates by Age in Michigan, 1994

	Age Groups					
	<=24	25-34	35-44	45-54	55-64	>=65
Predicted UI exhaustion rate	0.187	0.208	0.217	0.231	0.231	0.273
Actual UI exhaustion rate	0.244	0.226	0.212	0.225	0.250	0.370
Sample size	21,855	62,687	59,808	35,947	17,104	3,068

Source: For the control group used to develop the Michigan Worker Profiling and Reemployment Services model (Eberts and O'Leary, 1996).

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